FINAL

CITY OF LEBANON
CITY COUNCIL
Minutes, Work Session, May 8, 2019
City Hall – Council Chambers
5:30 P.M.

MEMBERS PRESENT	Mayor Timothy McNamara, Assistant Mayor Clifton Below, Councilors Bruce Bronner, Erling Heistad, Karen Liot Hill, Shane Smith, Suzanne Prentiss, Jim Winny, Karen Zook
MEMBERS ABSENT	None
STAFF PRESENT	Shaun Mulholland (City Manager), Greg Colby (Finance Director), Vicki Lee (Deputy Finance Director), Doug Smith (Assistant Finance Director), Paula Maville (Deputy City Manager), Sandra Allard (City Clerk), Chris Christopoulos (Fire Chief and Interim Airport Manager), Gloria Leskiewicz (Human Resources Director), Lynne Goodwin (Human Services Director), Tad Montgomery (Energy and Facilities Manager), David Brooks (Planning & Zoning Director), Sean Fleming (Library Director), Rick Vincent (Chief Assessor), Richard Mello (Police Chief)

Mr. Mulholland started the meeting at 5:33 PM.

1. DECEMBER 2018 and 1st QUARTER 2019 BUDGET REPORTS

Mr. Mulholland introduced the finance staff. They are building their presentation on the work that was started by the previous Finance Director, Len Jarvi, and working on some new approaches to presenting the information to the Council this year.

Greg Colby began the presentation. He referred to the packets provided for the May 8, 2019 meeting. The report is preliminary as the auditors will be coming later this month. The 2018 expenditures were under budget by $850,000 or 2.8% of the budget. Approximately $800,000 have been encumbered for ongoing repair and maintenance projects. The remaining funds will be returned to the fund budget. This information is relative to the operating budget. CIP projects are not accounted for in this budget. A detailed chart relative to each account in the budget was included in the packet.

The General Fund revenues exceeded the expected budget by $1.3 million dollars or 4.71%. Motor vehicle permits were strong as were the building permits, which increased the revenue. The City revenue base appears to be stable. With the reduction in spending resulting in return of surplus and the increased revenues, the City's reserves at the end of the year are healthy. It is a favorable position and puts the City in a position to manage extraordinary unexpected expenses that arise. Mr. Colby began the discussion reviewing several funds.

The Solid Waste Disposal Fund revenue exceeded the actual budget due to increased tonnage of waste materials. The fund has a little over $2.2 million. There are four capital reserve funds totaling over $8.5 million for projects associated with the landfill.

The Water Treatment budget forecasted an additional funding spend balance. The goal is to build a surplus in this fund over the next few years. The spendable fund balance increased by double the amount that was anticipated. The long-term objective is to moderate fee increases to accumulate resources before they are needed. This will leverage the State's loan program and the bonded debt for these projects. There is one capital reserve fund associated with the water treatment and distribution which is used for improvements and equipment purchases.

The Sewer Collection and Disposal forecasted a draw on the City budget for FY 2018. Only 1/3 of the amount that was anticipated was drawn down resulting in an increased fund balance. There is one capital reserve fund that is associated with this area that has been targeted for funding in FY 2019.

The Municipal Airport Fund forecasted a draw of 1/3 of the forecasted amount, resulting in less deficit than anticipated. The airport fund is subsidized from the General Fund for FY 2019. The Finance Department is also reviewing the fee structures of tenants and airline carriers at the airport.

The Emergency Management Fund was not discussed.

The review of the Capital Improvement Fund included a chart of all the ongoing City projects that was included in the meeting packet. The Finance Department reviewed all of the projects within each department to gather information necessary for the auditors and to forecast the anticipated debt that may need to be issued. Each of the CIP expenditures has a big impact on the tax rate, so it is scrutinized. New bonds will not be issued during 2019 Q1. The servicing of the debt incurred in 2020 will not become due until 2021.

Mr. Smith began the 2019 budget discussion1. The department may change some of the presentation from previous years, but the information will be the same pieces of data needed to make decisions. The first quarter of 2019 is about preparing for the audit of 2018. In the past, a quarterly report is provided throughout the year, with a monthly report each month during the last quarter. Revenues and expenditures do not happen in a smooth relationship throughout the year. Some expenditures are not spent evenly throughout the year and some are necessarily higher than benchmark in the first quarter. For the quarter ending March 31, the benchmark would be 25%. However, Q1 expenditures are at 29.7%. This is on trend with previous years. The staff compare the amounts to benchmarks to ensure that nothing extraordinary is occurring. Revenues are not evenly spread, for example taxes and grants and revenue sharing are not received and distributed monthly or quarterly. Hitting the benchmark is challenging. Permits and fees are more evenly distributed. The revenue budget appears to be on target currently. The important consideration is balancing the cash flow, that expenditures are not over spending the revenue that is in the budget. From a tax rate perspective, the department is being as aggressive as possible, to keep it level and stable. For 2019 Q1 the budget is level on both sides, the revenue and expenditures. In terms of other funds, the benchmarking does not reflect any anomalies. Mr. Smith discussed how the fees collected by the City will minimize impact on the general fund, and they are striving to have each department collect enough fees to cover the operating expense so there is minimum dependence on the General Fund.

2. FINANCIAL OUTLOOK WITH GREG COLBY, FINANCE DIRECTOR

Mr. Colby began the discussion of the Outcomes of Work Plan which is a financial outlook and expectations for 2020 and going forward. In preparation for the budget, departments and outside organizations are given guidelines by late June to prepare their 2020 budget. This culminates in the City Manager presenting a proposed budget to the City Council by the end of October. At this time, they are on target to propose a reasonable budget by October 2019. They are following the projections of the previous Finance Director and the results of the audit will be incorporated.

The City's financial outlook does not include formulation that incorporates the reclassification of personnel, the expansion of existing services, basically assuming the same level of service, activities and programs within each department, and no new initiatives. The CSO projects and other projects are a focal point and key component that will affect the tax rate. The water and sewer rates will impact the tax over the next three years. The $10 million planned for capital projects and $21 million planned for the CSO are creating a daunting task. The projections of the tax rate have been revised based on the projected outcomes of the 2018 budget. They are now projecting 2.5% instead of 3%. With limited time to re-evaluate projects for future periods, they are anticipating staying with the 3% projections for 2020, 2021 and 2022. This does not include the other components of the property tax such as School rate, the State School rates and County portions. Examples of the projected tax increase based on the value of a typical resident's home were provided.

The Council asked if the high level of building activity was incorporated into the projected budget. Finance is being cautious about incorporating this until later in the year. What is added by new construction will have a positive impact on the tax rates. The Council is interested in the building permit values and the estimated project values that are stated on the building permits on a quarterly basis. This will allow the Council to plan for the impact that new construction will have on the budget and taxes.

There are budgetary considerations, one is the 53rd pay period that needs to be considered this year. That is approximately an additional $400,000. The four new union contracts will require incorporating a cost of living increase. Health insurance premiums will not be available until late 2019. There has been an increase in use of the insurance and it is the new high deductible plan, so they are less able to estimate this increase. There is new State legislation that may impact the budget, such as taxes on hotel room rentals, new revenue sharing with the State, and some partial funding from State aid grants. The potential debt service that will be needed in future years has to be considered.

Doug Smith talked about debt service being a key driver of property tax rates and water and sewer rates. Things like the CIP for 2019 will influence the type and amount of debt service that will be needed over the life of those projects. New debt will not be issued in 2019. The projected 2019 debt will be pushed out at least one year. The next spike is anticipated for 2021. Anything to do with the State revolving loan program is dictated by the completion date or sunset date with the State. Therefore, there is no flexibility to manage that debt load. The CSO project is on schedule. The department will be working to smooth out the debt flow to reduce any spike in the debt load for projects where they can manage the debt load. Most of the spike that is anticipated in 2021 is the CSO project and combined sewer and over flow. The heavy construction load for that work will be in the next 24 months, which results in the spike in the debt. The CSO projects are varied in size and all the debt for those projects will show up in 2021. There are three components to the debt, the general fund, water fund and waste water fund. All three funds are being funded a different way.

Future debt impacts the water and sewer service rates that are charged. The staff are anticipating the water and sewer rates at both a minimum charge or an actual usage rate. In December an 8% increase is anticipated for water rates and a 7.2% increase for the sewer rates is predicted out through 2023. This is required to cover operating costs and State debt.

To wrap it all up, Finance is trying to provide the best information in a timely way to help the Council make good decisions. They are looking for any feedback that the Council has to offer.

The Council stated that there are so many things over which there is no control. Hopefully the new health plan will help hold the increases down. The Council will look carefully at projects to hold down the debt, but there are many projects that have to move forward. The Councilors want to make economically responsible decisions, where returns are achieved from the investments. Efforts to bring in more construction and businesses to the area would result in an increase of revenue. The Council will be looking carefully at the discretionary projects. There are projects that are a less tangible return on investment, but they are still a worthwhile investment. Revenues from the State have to be carefully managed. If the money from the State diminishes, the budget has to be able to maintain the projects without spikes in taxes. There is a backlog of projects, but there are some tough times and difficult decisions that will need to be made.

The City is trying to maintain the same level of service and each year it is more difficult to do so on the same budget. The Council hopes to work closely with the Finance department to keep the Council advised of the budget and the discretionary expenditures. Knowing where the decision points are will be helpful for the Councilors. This will keep them from making large reductions in parts of the budget at the end of the budget cycle. Most of the discretion is about the number of capital projects that the Council decides to do and how much debt will be taken on. The Councilors hope to continue to advance some of the initiatives and find ways to generate revenue, including property taxes and funds from the State. One-time infusions of revenue have to be carefully examined to make sure the Council does not plan long range to receive those additional funds. A tax rate increase of 2.5% is reasonable. In 2020 and 2021 the City will be in a survival mode. There is no windfall that will help with the spikes that will come those years. And the projects during that time will have to be kept to a minimum.

The meeting was adjourned at 6:45 PM.

Respectfully submitted
Linda Billings
Recording Secretary